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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---------- In the Matter of ---------- PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate the Issues and Requirements Raised by, and Contained in, Hawaii Revised Statutes Chapter 486H, as Amended	DOCKET NO. 05-0002

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PUBLIC UTILITIES COMMISSION

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

DATED: Fairfax, Virginia, June 17,2005

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-1 Ref. ICF Recommendations at p. 18:
"The price quoted by Platt's for the Far East are the most reliable in the very liquid and commercial market in Singapore, while prices in Korea and Taiwan are less transparent."

a. Is this the only rationale for adopting Singapore-sourced price data for this study and, if not, what other criteria or characteristics were looked at to justify the Singapore data as a valid choice to apply to a Hawaii price cap calculation?
b. Please explain what makes Platt's a "reliable" source for data in the Far East. How are Platt's numbers derived, and what is their relationship to actual prices? Are there any transactions not included in Platt's?
c. Does Platt's or any other service report Korea and Taiwan prices? If so, why are these not reliable?
d. Are Singapore specs for gasoline the same as gasoline specs in Hawaii? Should the Singapore baseline numbers be adjusted for the more realistic possibility that product would likely come from Asian sources other than Singapore?

Response:

a) No. The Singapore gasoline market involves a number of physical trades of gasoline on an ongoing basis. There is no corresponding active market in Korea or Taiwan, although cargoes do originate from those areas. The other markets in many cases do transactions based on the Singapore market prices (with differentials based on location adjustments), and also sell cargoes on a netback basis (i.e. a discount vs. the market they are entering to reflect freight cost and profit). These type transactions are not published as often or visibly as Singapore.

In addition, the Platt's quote for freight from Singapore to the US West Coast is a sound estimate of the freight market which could be used to estimate freight into Hawaii. These were the primary reasons.

b) Platt's price analysts have ongoing dialogue with buyers and sellers in the market. They determine the price level, and the high and low (or, bid/ask spread) for trades and report the information. The companies depend on Platt's (and also other services) to report accurately since many contracts are based on the Platt's price. Platt's prices are based on normal time periods for arranging purchases and sales of products in the regional market (15-30 days in advance). Individual trades which are done for loading outside these windows may be done at a premium or discount to the Platt's price, but the "normal" trade would be within the Platt's window. Therefore the Platt's reported price is in fact the price.

c) Platt's reports a 95 octane gasoline for cargoes loading in Korea 15-30 days ahead. ICF is not aware of a Taiwan quote, or if any other services provide quotes for these locations. ICF needed a market sufficiently complete to include premium, midgrade, and unleaded quotes, as well as having a visible freight quote.
d) As noted in Exhibit 2.2, Singapore specs are somewhat different than Hawaii. ICF believes these differences, based on current US and Hawaii specifications, can be offsetting. Any adjustments for locations other than Singapore would require significant estimation of some key factors, including the premium and midgrade adjustments. ICF had a key concern that the data used be reliable and complete.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-2 Ref. ICF Recommendations at p. 19:
"ICF believes that Hawaii could be a reasonable competitive disposition for Caribbean volume."

a. What is meant by a "reasonable competitive disposition" and upon what basis was this assumption made?
b. Is this the only rationale for adopting Caribbean-sourced price data for this study and, if not, what other criteria or characteristics were looked at, justifying the Caribbean data as a valid choice to apply to a Hawaii price cap calculation?
c. Other than the Caribbean and Singapore, were any other sources considered and, if so, where were they and why were they eliminated?
d. Did ICF study the history of finished products imports to Hawaii? Where have past cargoes come from?
e. ICF rejected the sources in the price cap Law, and replaced Caribbean with US Gulf Coast (USGC). Is there a significant difference between the two in the way gasoline prices move? Aren't USGC prices more reflective of U.S. prices?
f. Are Caribbean specs for gasoline the same as gasoline specs in Hawaii? Should the Caribbean baseline numbers be adjusted for the more realistic possibility that product would likely come from sources other than the Caribbean?

Response:

a) It means the Caribbean is a clear export market, can and has provided product to the West Coast when economics support it, and has, at times, been at or lower than cost of Singapore product delivered into Hawaii.
b) No. In addition, ICF believes that over time, the Singapore market may strengthen relative to Caribbean sourced product (due to growing Asian demand), and the Caribbean may weaken as more European gasoline exports compete for US demand. ICF saw this as providing a more enduring and longer term perspective. Having a basket of sources (in this case 2 sources) also reduces volatility to Hawaii consumers versus a single source.

   In addition, the existence of a published freight rate was an important consideration (Platt's Caribbean to US West Coast)
c) Yes, ICF considered the Pacific Northwest, but did not use it because the NW is typically importing product in the summer and balanced to long in the winter. Moreover, freight estimates from this area would be US Flag and therefore not published for use in the formulas.
d) Yes. ICF has reviewed the history. See Attached.
e) There is not a significant difference. ICF estimated a 1 cpg discount from USGC. ICF recommended the Caribbean because it is clearly an export source. Moreover, use of the USGC price would have required ICF to locate estimated

US Flag freight costs, which are not published. Accurate and visible freight costs were very important, in ICF's view.

f) Caribbean gasoline is consistently exported to the US, and since ICF's analysis assumes a discount off the Platt's USGC waterborne price, ICF doesn't believe this is a concern.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

ATTACHMENT TO IR-2

Hawaii Total Volume Gasoline Imports (Mbbls)							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Caribbean	VIRGIN ISLANDS, U.S.	147					147
Caribbean Total		147					147
Far East	JAPAN	687	80				767
	TAIWAN				273		273
	KOREA	399	480	68	164	1	1112
Far East Total		1086	560	68	437	1	2152
Total Number of Gasoline Shipments to Hawaii							
SOURCE LOCATION	SOURCE COUNTRY	1999	2000	2001	2003	2004	Grand Total
Caribbean	VIRGIN ISLANDS, U.S.	1					1
Caribbean Total		1					1
Far East	JAPAN	9	2				11
	TAIWAN				2		2
	KOREA	5	3	1	1	1	11
Far East Total		14	5	1	3	1	24

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-3 Ref. ICF Recommendations at p. 19
It was recommended that the *"Caribbean should be evaluated using the USGC Platt's waterborne price less 1 cpg to recognize trading competition."*

a. Please show your calculation of, and provide all work papers showing, how the 1 cpg for trading competition was derived; include any assumptions made and the databases and the specific sources used.
b. What are "waterborne" prices? Are these cargoes in tankers that could be sent to Hawaii?
c. Are clean product tankers of 30 MT available in the Caribbean on short notice? How long would it take to find an available clean product tanker of this size, and to position it at a terminal with which a contract has been made to provide 30 MT of gasoline?

Response:

a) The 1 cpg was based on ICF's experience in product markets, as well as validation with several trading organizations that trade in that market.
b) USGC Waterborne prices are Platt's price quotes based on trades done in the USGC for loading cargoes (ships or barges in excess of 50,000 barrels) between Houston and the Mississippi river. The quotes represent prices at which a trade could be done to load a cargo to Hawaii.
c) They are typically available. It may take from 1 to 3 weeks to arrange a cargo on a spot basis, depending on the market, and urgency of need.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-4 Ref. ICF Recommendations at p. 21
". . . ICF has estimated Hawaii freight costs based on a relationship between published Platt's freight and Worldscale assessments and by adjusting the cost to reflect estimated trip times . . ."

a. Describe, in detail, what you meant by the "relationship" between Platts' freight and Worldscale and how it was applied to the calculation of Hawaii freight costs.
b. Describe, in detail, how the cost was "adjusted" to reflect trip times.
c. Did ICF make any effort to determine if the methodology it used to adjust known routes for a Hawaii diversion was applicable to actual charter costs for clean product tankers on a timely basis?
d. How did ICF determine that a 30 MT tanker was the appropriate size? How many days' Hawaii inventory are 30 MT of gasoline?
e. Would the repositioning of an empty tanker from Hawaii be a cost borne by the importer? If not, why not? If so, was this additional cost taken into account in calculating freight costs?
f. Did ICF take demurrage charges into account?

Response:

a) Platt's freight quotes are based on market deals done for contracting freight. In some cases the trades are done on a worldscale assessment (eg 200 WS) and applied to the flat rate between defined ports; in other cases trades are done on a "lump sum" fee from the charterer which reflects the origin, destination and WS market. Since freight is typically quoted on a weight basis, in either case the published freight rates need to be converted into a CPG basis (cents per gallon) to determine cost on a volume basis.

   Singapore to USWC freight trades are quoted on a lump sum basis; Caribbean to the USWC is quoted on a WS and $/MT (metric ton) basis. ICF had to adjust these rates and costs to reflect a voyage from Singapore and the Caribbean into Hawaii, rather than the USWC.

b) The specifics on this are located in spreadsheets "B2 Honolulu Landed Cost v4", "B2.5A Platt's Rate Check01-26", and "B2.5B Platt's Clean Tanker Rates". Adjustments were made for loading time, discharge time, canal costs & passage.
c) Yes. With virtually no history to consider, ICF's view is that is the best reasonable assessment of freight cost into Hawaii.
d) A 30 MT tanker is a typical cargo of gasoline for economic movements of product for any distance on ocean waters. Freight rates are quoted for 30 MT vessels. 30 MT of gasoline is about 255 MB of gasoline, or a bit more than 8 days Hawaii supply.

e) It would, in general, be included in the freight rate quote, so the answer is yes. The same would apply to cargoes moved into the West Coast (i.e. it would be questionable if a repositioning backhaul could be arranged)
f) ICF assumed a "terminal and discharge" fee of 1 cpg, which included demurrage, in ICF's view.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-5 Ref ICF Recommendation P. 21 (Freight Costs):

a. Please show your calculation of, and provide all of your work papers showing how the 0.5% in-transit losses, 0.15% cargo insurance, 1.25 cpg import duty were derived; include assumptions made, if any, and the databases and their sources used, if any.

b. Will any of these factors be subject to the weekly adjustment of baseline and location pricing, and if not, why not?

c. Where in the ICF Recommendations does it explain how these factors are to be adjusted, if at all?

Response:

a) There are no work papers. As noted, the 0.5% in-transit losses and 0.15% cargo insurance are factors used in evaluating cargo movement economics. They are typical in the trading and shipping community. The import duty of 1.25 cpg is based on the US Customs import fee of 52.5 cents per barrel of imported gasoline.

b) The weekly freight costs are adjusted for the higher or lower cost of losses and insurance as the source prices change.

c) The loss and insurance assumptions have been used, in ICF's experience, for some time (many years). The canal fees can change, and ICF would recommend that these be updated annually (much like the updates for zone adjustments). This was not in ICF's report, but in ICF's opinion it should be part of any final PUC ruling.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-6 Ref. ICF Recommendations at p. 22:
Please show your calculation of, and provide all of your work papers showing how the 1 cpg for storage and handling was derived; include the assumptions made and the databases and their sources used.

Response: There is no calculation. The estimate is based on experience with Industry charges for terminal throughput fees and costs. ICF notes that the freight rates (based on worldscale assessments) reflect port and harbor fees. The 1 cpg reflects terminalling and demurrage.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-7 Ref. ICF Recommendations at p. 26:

a. Please explain, in detail, your rationale for recommending that the baseline prices and freight cost be updated weekly.

b. Given that the baseline and location adjustment are updated weekly, wouldn't it be more consistent and accurate if the marketing margins and zone adjustments were also updated weekly, and if not, why not?

Response:

a) ICF recommends that the baseline and freight numbers be updated weekly because of the frequent variability of these prices and costs in global markets. Anything less frequent would not be market responsive. ICF considered daily pricing, but the belief is, barring evidence of gaming the system using weekly numbers, the value added would be minimal. Moreover, changing the frequency may require a Legislative change.

b) The zone adjustments reflect costs that are provided by Industry and averaged. Use of annual costs minimizes the Industry burden and frankly, these costs do not change other than for inflation (ICF recognizes ethanol distribution costs and double hull barges are outside the norm). Updating Marketing margins based on US markets adds a large number of data points into the process on a weekly basis, and can permit localized margin events (seasonal or disruptions) to carry an undue burden and weight. The annual marketing margin variability shown in Report Exhibit 3.18 shows what ICF believes to be a reasonable variability in marketing margins (i.e. some years higher or lower than others). Alternatives such as a "rolling" 12 month average may be a bit timelier, but these again would require additional analysis and ongoing cost to manage.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-8 Ref. ICF Recommendations at p. 34
Please show your calculation of, and provide all of your work papers showing how the 1 cpg for margin incentive was derived; include the assumptions made and the databases and their sources used, if any.

Response:

a) There are no specific calculations or work papers. Bulk gasoline sales from refineries usually take place at spot market prices as reported in Platt's or other price reporting services. The basis for the 1 cpg premium on bulk sales is that a baseline source plus freight cost (including the 1 cpg terminalling fee, losses, etc), may not provide an incentive to import without a slight premium. This is not the same as the terminalling fee, and the basis is ICF's estimate of an incentive level needed to make a movement profitable.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-9 Ref. ICF charter and assumptions

ICF has stated in several places in the Report and verbally, that its intention was to simulate a "virtual pipeline" of gasoline supply to Hawaii, and to replicate "what a competitive market in Hawaii would look like."

a. Please explain what a "virtual pipeline" means in terms of supply, and how it applies to Hawaii's situation.
b. Please clarify the assumptions used in concluding that "a competitive market in Hawaii", at various levels, should look like the market simulated by your proposed Gas Cap structure.
c. Does ICF believe that Hawaii, at all levels, is not a competitive market for gasoline?
d. Are there other ways the Hawaii market could be simulated to more closely reflect the inherent structure of the market?
e. If ICF's intent was to simulate the costs of importing and distributing gasoline in Hawaii in competition with refiners, should it not have evaluated doing so on a stand alone basis? What would be the costs of importing and distributing gasoline without taking advantage of the existing wholesale infrastructure?

Response:

a) The intent of ICF's analysis was to identify the source cost alternatives and transportation into Hawaii to identify an import parity price. By "virtual pipeline" ICF meant to convey a competitive supply approach to Hawaii's import parity, on a basis similar to comparing for example, source gasoline in the US Gulf Coast market transported to the Middle Atlantic states via pipeline. In other words, by using the market source costs and market freight costs, Hawaii is transformed from being a "dislocated" market to a "connected" market (which, ICF believes, is the Legislated intent).
b) By using Caribbean and Singapore prices as a baseline, market freight costs, mainland marketing margins, and Hawaii zone adjustments, ICF believes that the gas cap recommendations simulate a competitive market.
c) ICF did not study the market at all levels, but believe there are areas where it has not always demonstrated a competitive behavior on the wholesale level.
d) There are some areas identified in the sessions with the Parties on May 17-19 that may reflect some base changes from the mainland market that, if defined and quantified, may merit adjustment in the formula for structural enhancements (e.g. rent caps)
e) A complete standalone analysis, including investments and costs to "break into" the Hawaii market without using the existing wholesale infrastructure would result in much higher import parity costs. ICF believed the intent of the Legislation was to establish gas price cap levels in Hawaii that reflected competitive market conditions.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-10 Ref. ICF Recommendations at p. 35

"In order to be profitable as a marketing company or as a marketing business unit of an integrated company, marketing gross margins should cover wholesale marketing costs (this would include costs for brand advertising, sales representatives & management, additives, etc.) and provide a reasonable profit margin."

a. Were any other wholesale marketing costs considered other than advertising, sales representatives and management, additives, and, if so, what were they?

b. Were the various components making up "marketing gross margin" ever quantified and, if so, how was that calculation made and what were the results?

c. In taking into consideration the various components that make up marketing costs, did you ever consider rebates; impacts of the size of the market, land values; capital costs, rent subsidies, credit terms and, if so, were they ever quantified and, if quantified, what were the assumptions made, calculations and results?

d. If the values noted in "c" above were taken into consideration, explain how they were incorporated into the margin calculation and, if not, why not?

e. Was the "reasonable profit margin" ever quantified and, if so, please show your calculations of and provide all of your work papers showing how this "profit margin" was derived to include the assumptions made and the databases and the specific data sources used.

f. Given that in the Hawaii market, wholesalers must account for and deal with inventory cost risk in having to maintain inventory levels that exceed 30 days of supply, and that the 8 cities used to calculate the DTW margin are of a significantly larger size and have higher volume turnover, shouldn't the methodology proposed specifically take this into account in calculating either the DTW or the marketing margin?

g. How many markets studied by ICF imported gasoline through an offshore mooring? Are there costs associated with offshore moorings that should be part of import parity costs?

Response:

a) ICF recognizes there are other costs than those listed, as indicated by the "etc".

b) The components making up gross marketing margin were identified in Exhibit 3.7. The data for the marketing margins are found in the project spreadsheets "C3.9 Rack Margin Comparisons 3-16-05", "C3.15 DTW Margin Comparisons 3-22-05 v2", "C3.11 DTW and Rack Margin Figures 4-4-05", and "C3.13 OPIS Branded_Unbranded_LDC Comparisons".

c) The marketing margin calculations only reflect supply acquisition and transportation cost to the terminal. The intent was to identify over a mainland

geographical area the average and peak margins experienced by marketers in metropolitan markets. These average margins are the "revenue" that must cover the costs which are included in the wholesale business, some of which are noted in IR-10c

d) They were taken into account as costs that mainland marketers must cover within the average margin. ICF had no data to enable us to delineate the specific costs experienced in the mainland locations.
e) It was not quantified.
f) ICF believes based on 2004 data that Hawaii's days supply of gasoline was about 27. The US average is 24. ICF's opinion is that the formula does not need to include this inventory risk.
g) ICF does not know the relative cost of importing gasoline through offshore moorings. The analysis is generic and not driven by the specific import facilities in Hawaii. ICF is not aware of any unusual costs for offshore crude moorings versus "at dock" crude discharges (in fact some benefits are gained).

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-11 Ref. ICF Recommendations at p. 35
"Oahu gross margins for DTW and Rack Sales have averaged 32 and 28 cpg in 1999-2004"

a. Should the reference to Exhibits 3.8 & 3.9 be to 3.11 & 3.16?
b. What specific EIA database was used in estimating historic gross margins for Oahu and why was that database chosen?
c. Was any attempt made to reconcile the criteria ICF has used (Ref IR-9) with these margins?

Response:

a) Yes. In fact the entire paragraph was inadvertently positioned in the document.
b) The data was taken from EIA's Petroleum Marketing Monthly Table 31. It was the best EIA data ICF found.
c) The Exhibits 3.19 and 3.20 show a comparison of the estimated Oahu DTW and Rack prices with ICF's formula, which includes the recommended cap of double the mainland average. ICF did not specifically reconcile why the historic Hawaii gross margins were different than the mainland average margins. ICF's assessment was, and is that the Hawaii wholesale market has at times operated at or near mainland margins, and at other times well above mainland margins.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-12 Ref. ICF Recommendations at p. 35
"For Rack prices ICF evaluated historical Platt's data on average terminal rack prices…in 8 major markets"

a. Why was Platt's chosen and not EIA for these markets?
b. Was there any attempt to use EIA data to compute rack prices in these markets and, if so, what were the specific EIA data bases reviewed, what were the results, and why weren't they used?
c. Identify the criteria adopted by ICF used in picking the 8 cities that it used to compute the rack pricing margins. What assumptions were made?
d. Were the criteria, characteristic and assumptions identified and utilized by ICF ever compared to the Hawaii market and, if so what were the results, and if not, why not?
e. What other cities were considered and eliminated and why?
f. Were the 8 cities chosen weighted by volume to determine average? If not, why not?
g. Don't many, perhaps all, of the selected markets have material differences from the Oahu market – either size, access to product, transportation, structure of the market, regulations in place (rent-caps, divorcement/anti-encroachment laws, ethanol mandates, etc)? How were these differences accommodated in determining the market margins?

Response:

a) EIA reports statewide numbers only. Platt's provides the data by specific city or metropolitan area.
b) There was no attempt to use EIA data for these markets.
c) ICF was seeking markets with 1) conventional gasoline and 2) visibility to the supply chain and cost into the location to assess margins as accurately as possible. Consequently, locations which are sourced from the USGC, Chicago, etc plus pipeline tariffs and/or marine costs were reasonable to include. ICF wanted a minimum of 5 spread out geographically. Some alternative locations were simply at different points along pipelines (e.g. Birmingham vs. Atlanta) and ICF wanted a more geographical spread. ICF concurs there are other alternative locations, but does not believe that the quality of the results would substantially improve.
d) No. ICF was not seeking to find markets which duplicated Hawaii's market structure. Since Hawaii's market has often been called an "oligopoly", ICF was focused on finding more competitive alternate markets.
e) ICF considered Miami but felt it mirrored Tampa too closely to really be a different market. ICF also considered Denver, but had to exclude it because there is no direct pipeline or marine connection into the market from a liquid spot market (USGC, Chicago, etc) to effectively calculate a marketing margin.

f) No. ICF was seeking to find average margins in multiple geographic areas, to assess the normal variability of margins in different regions.
g) The assessment of the mainland marketing margins is one analysis done to identify the average and range of wholesale gross margins in mainland markets. The differences cited are not relevant to that specific analysis. They *are*, however, relevant to an analysis of the marketing margin caps. ICF has attempted to reflect some of the differences through the zone adjustment process, which incorporates some "higher than mainland" costs for barging and terminalling, and for trucking for DTW class of trade. ICF did not have enough consistent and defined costs for areas such as rent cap impacts to assess with credibility if a "base" adjustment was needed versus the mainland.

Sponsor: Tom O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-13 Ref. ICF Recommendations Exhibit 3.8, at p. 36, also p. 66, 7.2.2, 4th sub-bullet:

The transportation component uses a mix of 50% pipeline and 50% barge.

a. What assumptions were made when choosing a mix of 50% pipeline and 50% barge and how do such assumptions compare to what can be expected in the Hawaii market?
b. Were other combinations considered and, if so, why were they excluded from the analysis?
c. Please show your calculations of, and provide all of your work papers showing how the transportation component of the Rack prices was derived; include the assumptions made and the databases and their sources used, if any.
d. In the Transportation column it is noted that (fn2) it is comprised of published tariffs, estimated barge costs and a 1cpg terminal fee. Why were published tariffs used for Rack pricing and not in determining Trucking costs for the zone adjustments?
e. What were the "barge costs" added to derive the Transportation component of Rack pricing?
f. Please show your calculations of, and provide all of your work papers showing how the "Barge costs" were derived to include the assumptions made and the databases and their sources used.
g. How often will this Barging cost be recalculated?
h. Please show your calculations of, and provide all of your work papers showing how this 1 cpg terminal fee was derived, to include the assumptions made and the databases and their sources used.
i. If 1 cpg was added to the freight calculation to derive the Oahu parity price, does that mean that the 1 cpg terminal fee in the rack pricing will also automatically increase by a similar amount, and, if not, why not?

Response:

a) The transportation component uses a transportation cost appropriate to the market to determine the delivered cost of gasoline to that market. It is irrelevant to the margin calculation what the transportation method is.
b) It was not considered. There are no marine options for Atlanta, Dallas, Detroit, or Phoenix. Of the others, only Seattle has a pipeline alternative.
c) Calculations are located in the spreadsheet "C3.9 Rack Margin Comparisons 3-16-05" in the accompanying database. The transportation costs were based on published pipeline tariffs (see Attached).
d) Published tariffs for pipeline shipments apply to all shippers and are specific to the origins and destinations used by ICF; the published tariffs for trucking costs do not apply to company owned and operated equipment, which is (ICF believes)

a large part of the Hawaii deliveries. Moreover, even if the truck tariffs were in fact used, the analysis would have to gather demands by service station to determine the average costs for each zone. Asking the Parties for the data was more effective.

e) The barge costs are noted in the spreadsheets referenced above, and range from 1 cpg to 3 cpg depending on the location.

f) These numbers are estimates based on ICF experience, and are not published on a spot or historical basis.

g) These numbers should be assessed and updated as part of the annual margin re-assessment. ICF recognizes a more consistent process may be required than "ICF assessment" for updating. It is possible a marine chartering organization, or marine consultant, may be able to provide this information. ICF's experience in working this project is that those entities are concerned about liability in providing data of this nature.

h) The terminal fee of 1 cpg is based on ICF's experience of the Industry fee for handling product at an Industry terminal off major pipelines or marine terminals.

i) The question is unclear to ICF. The one terminal fee used in the mainland marketing margin calculation reflects the cost to handle product at the end of the supply chain prior to truck loading. The import parity terminal fee is an estimated cost to receive gasoline into the Oahu distribution system, and before any Oahu marketing/truck loading terminals are encountered.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

ATTACHMENT TO IR-13

Pipeline	Origin	Destination	Tariff
Colonial	Houston (Pasadena)	Atlanta-Doraville	1.90 cpg
Explorer	Houston (Pasadena)	Irving	1.99 cpg
Kinder Morgan	Watson, CA	Phoenix	3.26 cpg
Wolverine	Hammond, IL	Detroit	2.01 cpg

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-14 Ref. ICF Recommendations, Exhibit 3.9 at p. 36
In considering the 'Historical Wholesale Rack Margins', ICF used Platt's average Rack pricing, less spot market costs plus transportation.

a. Please explain ICF's rational for using the spot market cost plus transportation, rather than the Bulk pricing as reported by the EIA to determine the wholesale rack margins.
b. Was any other methodology used to calculate what the "Historical Wholesale Rack Margins" were and, if so, what were they and why were they eliminated?
c. Using the 1999 data as presented wouldn't the price cap for Rack sales in the year 2000 be 3.1 cpg, and at that level would that make Hawaii's "capped" prices lower than 5 out of the 8 cites which ICF looked at?
d. Based on the previous question, is it ICF's opinion that in utilizing their proposed price cap methodology, which achieves results that fail to fall within the range achieved in those markets it deems representative of Hawaii, is a "fair" or "simulated" free market?
e. Is it ICF's opinion that capping Hawaii's market prices at below the free-market in other cities is reasonable, and if so, why?

Response:

a) Spot market pricing reported by Platt's is the price at which bulk sales take place in a specific location. This location (e.g. Pasadena near Houston) links directly to the pipeline tariffs from Pasadena to Atlanta to determine very precisely the average marketing margins. The EIA bulk data could be from any location in the State (in this case Texas) and, much more important, may not occur ratably. Some sales may occur early in a month and others later, and the average price may not really be anywhere near as accurate as (for example) the EIA DTW or Rack price averages, which are occurring daily.
b) No other methodology was used to calculate the Historical Wholesale Rack Margins.
c) Yes, that level would that make Hawaii's "capped" prices lower than 5 out of the 8 cites which ICF evaluated.
d) The situation described in "c" for 1999 is in fact the case almost every year in the table. ICF completely agrees that the process used is intended to *simulate* a free market. To ensure fairness, any fundamental anomalies between Hawaii and the mainland should be identified. Some of these are covered in the zone adjustments. As noted earlier, others may need to be considered.
e) The cap is not based on the average, but on double the average. Hence the Hawaii market prices are not capped at below free market in the other cities.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-15 Ref. ICF Recommendations at p. 36

a. What is the specific data source of the spot price used to calculate the Rack margins?
b. Were Temporary Competitive Allowances (TCA), which are awarded by wholesalers to jobbers on purchases, taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, and calculations, and if not, why not?
c. Were rent caps taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, calculation, and if not, why not?
d. Were transportation costs for partial or small deliveries taken into account in computing the rack margins, and, if so, what were the amounts used, assumptions made, calculations, and if not, why not?
e. Why was the NYH Conventional based on OPIS while the others are based on Platt's?
f. Of the 8 cities used to compute the wholesale Rack pricing margin, how many have TCAs, rent caps, and/or did you take into account the transportation costs of partial or small truck deliveries?
g. Given that TCAs, rent caps, and transportation costs of partial or small deliveries are a unique and integral part of Hawaii's market, shouldn't the methodology proposed specifically take these into account in calculating either the rack or DTW marketing margin?

Response:

a) Please see the attached information.
b) Temporary Competitive Allowances (TCA), which are awarded by wholesalers to jobbers on purchases, were not taken into account in computing the rack margins. ICF concurs that these occur, but there is no reliable mechanism for estimating the impact over time to establish a dependable chain of information, so they were not included.
c) No. The rent caps do not affect the gross margin per se, but do affect the marketer's cost
d) These were not taken into account in computing the gross margins. However, the zone cost adjustments take into account the higher *average* trucking costs in Hawaii (mostly the neighbor islands) which are, in part, due to smaller deliveries.
e) Platt's does not report a conventional NYH gasoline; OPIS does
f) This has not been researched by ICF. Many marketers offer TCA's. Rent caps are not in place anywhere else in the US as far as ICF knows. No steps were taken into account for smaller deliveries, however these exist in major markets also (and ICF does account for this in the zones)
g) There is not, in ICF's experience, good and consistent data on the TCA's that would be reliable to use. The rent cap issue should be reflected, assuming that the Commission is comfortable that there is sufficient data to demonstrate the difference between mainland and Hawaii. ICF does not think the small truck deliveries can be reflected in the overall margin cap, since it would raise the cap for a large number of marketers where it may not be warranted. This, as

mentioned by ICF in the discussions with Parties on May 18-20, could impact marketers with only small accounts.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

ATTACHMENT TO IR-15 (A)

Platts Data Used in Gas Cap Formula		
Type	**Market/Name**	**Platts Code**
Price	USGC Waterborne Regular UNL	PGACU00
Price	Singapore Mogas 92	PGAEY00
Freight	Carib to USWC Worldscale	PFACI00
Freight	Sing to USWC Lump Sum	PFAEF00

Data Used to Calculate Margins				
		Platts Code		
Gasoline	**Market/Name**	**Regular**	**Mid**	**Premium**
Price	UNL Seattle Barge	PGADF03		PGABN03
Price	UNL LA Pipe	PGACY03		PGABG03
Price	UNL USGC Pipe	PGACT03	PGAAY03	PGAJB03
Price	UNL USGC Waterborne	PGACU03	PGAAZ03	PGAIX03
Price	UNL Chicago Pipe	PGACR03		
Price	UNL NYH Conventional (OPIS)			

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-16 Ref. ICF Recommendations at p. 37
"A comparison of the estimated Oahu Rack Price (based on EIA data) vs. the US Mainland average Rack margins for the eight cites shows. . ."

a. Please explain why the EIA database was used and not Platts'.
b. Was a similar calculation done using Platts' data and, if so, what were the results and why weren't such results used?
c. Was a similar calculation done using all EIA data for rack, and if so, what were the results and why weren't such results used?
d. Please explain why this is a statistically valid comparison given the different sources of data and the different basis upon which that data is gathered – EIA is actual historical data as reported by companies, Platts is a daily assessment by a journalist.

Response:

a) Platt's does not publish Oahu or Honolulu rack prices.
b) A similar calculation was not done using Platt's, due to the fact that no Hawaii Platt's rack data exists.
c) No. EIA data, as mentioned earlier, is state-wide data. Platt's is specific to a location and a better yardstick for margin calculations. EIA data could be used to estimate Oahu Rack and DTW prices because ICF had data 1) from EIA for Statewide Hawaii numbers on DTW and Rack price, 2) access to relative volumes in the 4 Hawaii counties from DBEDT; and 3) confidential price data from the companies for each zone from 2003 and 2004 (from the March 24 submissions to the PUC) which allowed ICF to calculate an estimate Oahu DTW and Rack price by backing out the higher neighbor island prices and percent sales. Please see spreadsheet "C3.19 Oahu DTW & Rack Estimate with Figures v4 4-8-05".
d) ICF believes it is statistically valid, although not perfect. It is important to note that EIA data can be very helpful, but it can also be very misleading if not exactly aligned with needs. It is also important to state that the Platt's assessment is most emphatically NOT a journalist's view. It represents an accumulation of multiple inputs during the day that come from refiners, traders and marketers who are buying and selling oil products. The fact that an enormous number of transactions take place on the price assessments of Platt's indicates that the "marketplace" has credibility in the numbers.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-17 ref. ICF Recommendations at p. 39 and 43.

"Based on the historical peak month average margins, the Hawaii margin factor should be double the prior year Mainland annual average, . . ."

Doubling *"...insures Hawaii wholesaler marketers the flexibility to manage their business in a range consistent with Mainland marketers."*

a. Please show your calculations of, and provide all of your work papers showing how this "doubling" was derived; include the assumptions made and the databases and their specific sources, if any.
b. If this criteria is used for the illustrated market (Detroit in Exhibit 3.10) doesn't the "double the prior year" rule have a material effect on the average price achieved in that market in at least 2 years?
c. Can ICF please explain what this (p. 43) means, how it provides "flexibility" in Hawaii, and why Hawaii marketers are expected to manage their businesses as if in the mainland marketing areas chosen by ICF?

Response:

a) The doubling was shown in the report in Exhibits 3.10 (Detroit) for Rack and 3.15 for DTW. The data behind this is located in spreadsheet "C3.9 Rack Margin Comparison 3-16-05". You will note that the actual "peak" month vs. the average for the 6 year period is 2.5, not 2.0. ICF used 2.0 because the most recent 3 years (2002 to 2004) were a ratio of 2.3, and that the West Coast cities (Phoenix and Seattle) had much greater peak month ratios due to the tight West Coast market.
b) ICF is not clear on this question. The doubling applies to the Hawaii cap, and does have a lag effect since it basically takes prior year mainland margins and limits Hawaii wholesale prices in the following year.
c) One difference between Hawaii and the mainland is that the Hawaii market is near balanced on gasoline supply and demand, barring a refinery outage. Rising gasoline demands are beginning to strain that situation, but in general Hawaii is not as exposed as the West Coast or Midwest in particular on supply shortages and volatility. Moreover, marketers, especially jobbers on the mainland may have multiple supply sources in a given market, and hence may have flexibility to "cherry-pick" the best price supplier each day. The price caps recommended by ICF are double the mainland averages. This does give Hawaii marketers the option (flexibility) to operate at higher than average mainland margins if deemed necessary for supply or margin reasons. ICF believes marketers on the mainland have a greater need for the flexibility for *supply* reasons than Hawaii, but felt that Hawaii marketers could be exposed without the same level of price flexibility.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-18 Ref. ICF Recommendations at p. 40

a. Please show your calculations of, and provide all of your work papers showing how this 3 cpg Unbranded to Branded rack differential was derived to include the assumptions made and the databases and the specific sources used.
b. Please explain how Unbranded and Branded gasoline applies to the Hawaii market. What have Hawaii sales of Branded and Unbranded gasoline been in Hawaii? What are the current pricing differentials?
c. How were 5 mainland markets chosen for the DTW analysis and why was Washington State not included?
d. Don't all of these mainland markets have material differences from the Hawaii market (market size, number of retail gasoline stations, regulations, supply alternatives, etc)
e. Were Temporary Competitive Allowances (TCAs) paid to any jobbers or dealers in any of these markets during the time frames shown? If so how much were these TCAs and how was this factored into the analysis?
f. Were rent-caps in place in any of these markets in the timeframes shown?
g. Why was EIA data used, and not Platt's?
h. Is it your opinion that the EIA is the best data source for determining DTW margins? Why?
i. What was the specific EIA database used?
j. Did you ever consider other locations/averages and, if so, what were they and why were they eliminated?
k. Was any consideration given to Hawaii's high cost of land acquisition, land use, and cost of construction, which is different from the 5 states chosen and how these differences would affect the DTW margin calculation?
l. Please show your calculations of, and provide all of your work papers showing how this 1 cpg estimate of supply costs was derived; include the assumptions made and the databases and their sources used, if any.
m. Were any other EIA databases considered and, if so, why were they eliminated?
n. What is the rationale for only updating annually?

Response:

a) The database is spreadsheet "C3.13 OPIS Branded_Unbranded_LDC Comparisons". The analysis, however, was based on Exhibit 3.13 in the Report, in which the "Low margin" row showed several low months (i.e. "low" meaning that Unbranded was higher than Branded) in several cities. ICF noted several over 2 cpg, and one at 2.8 cpg, and recommended a 3 cpg factor for Unbranded.
b) ICF's did not have access to unbranded and branded volumes. Feedback in company responses in the March 24 IR's to the Commission indicated that the

Unbranded Rack channel is likely less a factor in Hawaii than the mainland, and dialogue in sessions May 18-20 corroborated that.

c) ICF selected markets consistent with the Rack analysis, but since ICF used EIA data, ICF had to evaluate on a state level. Texas was excluded due to very low DTW sales in PADD 3 (under 3%); Both Arizona and Washington were eliminated because of very high (Washington) and low (Phoenix) margins, as well as many extreme margins.
d) Yes, there are many differences between Mainland markets and Hawaii.
e) In all likelihood, TCA's (Temporary Competitive Allowances), were paid to jobbers in these markets. This information is not visible to ICF, or for use in analysis.
f) ICF does not believe Rent Caps were in place in these markets.
g) Neither Platt's nor OPIS publish DTW prices, so these sources could not be used.
h) No. Lundberg probably is the best with company-by-company prices, but their data was too detailed for project needs, and had no volume average numbers.
i) The source of the EIA pricing is Table 31 of the Petroleum Marketing Monthly
j) Yes and No. ICF preferred to have more than 5 sources, but did not want to introduce new states and felt that the geography was reasonably well represented (recognizing that the West Coast was eliminated)
k) Hawaii's high cost of land acquisition was not considered. This calculation was for the gross margin and not the cost of the marketing business.
l) ICF's review of the database indicates that ICF in fact did ***not*** adjust the transportation rates for these 5 states. ICF considered doing so, but in evaluating the additional pipeline or barge costs, it was determined that: 1) the deliveries into Georgia are primarily into Atlanta, and spurs even as far as Bainbridge only added 10 cents per barrel (0.25 cpg) to the delivery 2) Michigan was not adjusted because Detroit was geographically further from the source market (Chicago) than other areas, and the same applied to Albany, NY. Tampa's cost was also assumed similar to Jacksonville and Miami (which also receive imported volumes) in Florida. There may be a basis for increasing slightly the cost for Maine, but with Portland being the primary destination terminal and population center, the adjustment was deemed small. Obviously the ability to clearly delineate the statewide terminal supply cost requires much more time and detail than ICF had, but ICF believes the data used was reasonably accurate.
m) No other EIA databases were considered.
n) The rationale is that marketing margins can be erratic over short windows in some markets, and that evaluating these on an annual basis may be more indicative of the underlying profitability of the marketing business than short term assessments

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-19 ref. ICF Recommendations at p. 42.
"DTW margins can…be double the average."

a. Please provide backup for this statement
b. What effect would a cap of double the average have on the average margins in the 5 markets?

Response:

a) Exhibit 3.15 in the report shows this effect. Source data is in Spreadsheet "C3.15 DTW Margin Comparisons 3-22-05 v2"
b) ICF assumes that the question asks what the impact may have been if price caps were in effect in these states. Assuming caps were in place, and if marketers behaved exactly as they did without price caps, then there would have been some periods in some states where peak margin periods exceeded double the average margin. With gas caps in place, at an ICF-proposed formula structure, some marketers would have had lower margins.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-20 ref. ICF Recommendations at p. 43.
"This ensures Hawaii wholesale marketers the flexibility to manage their business in a range consistent with Mainland marketers."

a. What does this statement mean?
b. What analysis has been made to determine whether Hawaii marketers can cover costs and earn an appropriate profit in this "range"?

Response:

a) The explanation of marketer flexibility is explained in the response to IR-17c. Repeating, one difference between Hawaii and the mainland is that the Hawaii market is near balanced on gasoline supply and demand, barring a refinery outage. Rising gasoline demands are beginning to strain that situation, but in general Hawaii is not as exposed as the West Coast or Midwest in particular on supply shortages and volatility. Moreover, marketers, especially jobbers on the mainland may have multiple supply sources in a given market, and hence may have flexibility to "cherry-pick" the best price supplier each day. The price caps recommended by ICF are double the mainland averages. This does give Hawaii marketers the option (flexibility) to operate at higher than average mainland margins if deemed necessary for supply or margin reasons. ICF believes marketers on the mainland have a greater need for the flexibility for *supply* reasons than Hawaii, but felt that Hawaii marketers could be exposed without the same level of price flexibility.

b) No thorough analysis has been done to determine whether Hawaii marketers can cover costs and earn a profit, in part due to lack of consistent cost data from all Parties.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-21 Ref. ICF Recommendations, Exhibit 3.21, at p. 45

a. Please show your calculations of, describe all adjustments, and provide all of your work papers showing how the "EIA Hawaii DTW price was adjusted based on Company data and Zone gasoline sales (DBEDT)"; include the assumptions made and the databases and their specific sources, if any.

b. Please show your calculations of, and provide all of your work papers showing how the 2.2 cpg terminal fee was derived; include the assumptions made and the databases and the data sources used, if any.

Response:

a) Spreadsheet "C3.11 DTW and Rack Margin Figures 4-04-05" details the calculations and formulas ICF used. Without historical zone by zone pricing (data from before 2003 was not requested in the PUC IR's due to the timing of the request to the Parties for data), ICF utilized the relative gasoline sales levels in each zone (data from DBEDT) and the average price differentials between zones as provided by the Parties in the 2003-2004 timeframe to estimate an Oahu price.

b) The 2.2 cpg number is developed by an average of 5 data points received for Oahu in the March 24 Party responses to the PUC. The specific data is provided in Redacted spreadsheet "D6.1 Company Response Data.doc" All data except HPMA parties are Redacted.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-22 Ref. ICF Recommendations at p. 47

"The analysis done by ICF for marketing margins relies heavily on the Mainland margins. This is done to provide an 'outside Hawaii' perspective to the process of determining appropriate and competitive marketing actors."

a. In choosing the 8 cites to determine its Rack marketing margins and 5 states for its DTW marketing margins, what characteristics were noted and what assumptions were made to define this "outside" Hawaii perspective and how was it similar to the Hawaii market?"

b. Please confirm that it is ICF's opinion that wholesalers can utilize hedging gasoline futures contracts (or other means) to mitigate the importation of crude oil or gasoline at a fixed cost and describe how that can be accomplished. Were hedging costs included in the analysis?

c. Please identify how many wholesalers in the 8 cities or 5 states relied on to derive the Rack and DTW margin pricing rely on hedging to mitigate the risk associated with a gas cap and at what cost.

d. Can ICF determine the historical inventory days of gasoline (including unprocessed crude oil) in Hawaii, add to that the time between cargo acquisition and arrival, and demonstrate how an importer of crude oil or gasoline can mitigate the risk of weekly Gas Cap price decreases during that period of time?

e. ICF stated that the cost of hedging was "insignificant". Is it ICF's position that all of the pricing risk under Gas Cap in Hawaii can be nullified by a costless or minimal cost hedging strategy?

Response:

a) ICF was seeking markets with 1) conventional gasoline and 2) visibility to the supply chain and cost into the location to assess margins as accurately as possible. Consequently, locations which are sourced from the USGC, Chicago, etc plus pipeline tariffs and/or marine costs were reasonable to include. ICF wanted a minimum of 5 spread out geographically.

   This is a very similar question to IR-12. In addition to the IR-12 response, ICF notes that the "Outside Hawaii" comment referred to the fact that the mainland locations had a visible and generally simple way to calculate marketing gross margins.

b) ICF does not believe gasoline futures contracts can be used to hedge crude oil purchases. ICF believes that a wholesaler who imports a cargo of gasoline paying a FOB (on loading) price would assume significant risk in the current Hawaii wholesale price structure. This is because there is

no clear basis on what drives Hawaii wholesale prices. ICF does not believe there is an acceptable hedging mechanism in the current market.

In a gas cap environment, ICF believes the same purchase could be hedged to protect the marketer. Since the gas cap formula relies on the USGC and Singapore prices, it would be possible to arrange an OTC (over-the counter) broker to assume the risk. In this case, the marketer could "unwind" the hedge when the cargo discharges in Hawaii, or ratably over the period of time the cargo is moved to customers. Since the gas caps are based on the same markets as the hedge (USGC and Singapore) the marketer would be protected if gas caps fall after the marketer purchases at a fixed price.

Hedging costs were not included. This is a business management decision that marketers may or may not make, and, ICF believes, represents an option that is not reasonable to take without gas caps in place.

c) Since there are no gas caps in the Mainland market regions evaluated, the answer is none.

d) Assume a cargo is loaded in the Caribbean at a market price of $1.50/gal on day 1. Assume the Oahu DTW price (at the Gas Cap) on the same day is $!.80 (15 cpg freight and other, 15 cpg DTW cap). For simplicity, assume the Singapore price is the same as the USGC.

If it takes 21 days to move gasoline to Hawaii, and then the marketer has demands of 5 MB/D, it would take about 50 additional days to "sell" the cargo volume. If the gasoline market prices in the USGC and Singapore fall by 20 cpg in the 21 days shipping, the OTC broker would pay the marketer 20 cpg in hedging income (if the markets rose 20 cpg, the marketer would pay the broker 20 cpg...but the marketer would also be selling his gasoline 20 cpg higher than expected.)

The OTC broker could arrange the hedge so that the hedge is liquidated 5 MB/D at a time beginning on the first day the marketer desires (as he begins selling the volume to consumers).

e) ICF indicated that the cost of executing futures contracts for hedging can be minimal. It would be more costly to use an OTC broker, but the cost would depend on the brokers' view of the risk involved. ICF does not agree that all risk in a gas cap environment (or free market environment) can be nullified, under any circumstances.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-23 Ref. ICF Recommendations at p. 47.
"A stagnated wholesale price environment may be indicative of a market which is less efficient than the Mainland or with less incentive to manage costs."

a. Please provide any empirical data relied upon by ICF, which support the conclusion that Hawaii's market is "less efficient" or has "less incentive than the Mainland. If it may be indicative of these characteristics, what other possibilities did the ICF consider that a "stagnated price environment" might be indicative of?
b. Please confirm that ICF's reference to the "Mainland" is to the markets as defined by ICF in using the eight cities or five states to calculate marketing margins, and if not, what is ICF's definition of "Mainland" as used in the above context?
c. Is it possible that prices in Hawaii do not move in the same manner as on the Mainland because both competitive refiners bring in cargoes of crude oil at fixed prices and compete with each other on that basis?
d. It has been recognized repeatedly by all parties that there is no mandate in the law that reductions in wholesale prices be passed to consumers by retail dealers. Dealers themselves have testified it is unlikely they will do so all the time, every time. Given the ultimate intent of the Law, should there not be some provision in the regulations to ensure that dealers are not simply enriched at the expense of consumers and suppliers?

Response:

a) The only empirical data used to develop a conclusion about the efficiency of the Hawaii market was identified in assessing the historical Hawaii margins. In examining the data that generated Exhibits 3.19 and 3.20, there are periods where prices do not seem to follow the market (the market being the Caribbean and Singapore gasoline pricing). In mainland markets (both the ones ICF used and others), changes in market prices are passed on to jobbers and dealers in some cases the same day, and in some cases multiple times a day. These marketers are concerned that if they don't drop price as quickly as others, they will lose volume; if they don't raise it as quickly, their terminal will be drained. This does not appear to occur in Hawaii, despite the fact that some marketers pay import parity type price for their product based on fairly volatile mainland and foreign gasoline prices.

The only other thought ICF may have on the "stagnated environment" is that there can be a pattern of the market being driven by one marketer and the others follow. In order to evaluate this, it would be necessary to examine a detailed history of who "leads" the Industry in Hawaii in making price changes.

b) Yes it is in reference to ICF's eight Mainland markets, although the competitive pattern described in a) occurs throughout the US mainland.
c) ICF does not believe gasoline prices in Hawaii move differently than the Mainland due to the crude acquisition process. Hawaii refiners process crude that range from very light, expensive Indonesian condensates (e.g. Tapis) to ANS (North Slope) to very heavy Indonesian (Duri). The mix of crudes run in Hawaii's refiners indicate that both refiners are very aggressive in selecting the best crudes to fit their hardware, but the price of these cargoes can be as much as $15-20 apart in today's market (e.g. Tapis at $60/BBL, ANS at $42).
d) ICF did not study the likelihood of wholesale price changes due to gas caps being passed on to consumers by retail stations, and a change of this nature would require Legislative intervention.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-24 Ref. ICF Recommendations at p. 59

a. Was any analysis done or opinion reached as to whether breaking the state into 8 zones was reasonable or accurate?
b. If so, what were the results of your analysis?
c. Is it reasonable to think that actual costs of operation (trucking, etc.) will be the same for all sales made within each zone? If not then what is ICF's estimate of the cost differences within zones?
d. ICF has only addressed Terminal, Barging and Trucking cost differences between different zones. Are their any other cost differences for marketers between the zones?
e. Has ICF considered land costs, taxes, infrastructure differences, market size, risk factors or any other factors that may affect costs between the zones?

Response:

a) No analysis was done or opinion reached as to whether breaking the state into 8 zones was reasonable or accurate
b) N/A
c) It is not reasonable to think that costs of operation will be the same for all sales. Data from companies indicate spreads from 1 cpg to 8 cpg or higher.
d) There may be cost differences in the actual marketing operations (Items noted in the question are basically supply and transportation matters). The marketing costs could include areas such as rent differences, rebate differences, depreciation, etc.
e) Market size and infrastructure are, ICF believes, included in the zone adjustments. The others are not.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-25 Ref. ICF Recommendations at p. 59

a. What was the rationale for updating the Zone Adjustment annually as opposed to a shorter time period?

b. Wouldn't it more accurately reflect the then current market if it was done weekly like the baseline and freight price?

Response:

a) The rationale for annual updates of zone factors is that most of the cost areas in the Zone adjustments are less prone to change than market pricing. Moreover, these costs are provided by the companies, hence the burden to assess these each week is very intensive on both the PUC and the Parties.

b) Yes, but it is questionable what the value gained would be of introducing weekly updates which would have to be provided by the Parties', validated, and averaged.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-26 Ref. ICF Recommendations at p. 60

a. What is significance of updating barging cost on March 1?

Response:

a. In order to update barging costs for the prior year (eg 2004), the Parties' need to provide their actual costs to the Commission as soon as possible after year end. The delivery of this information to the PUC, as well as trucking and terminalling data, may be difficult to provide until late January (at best). ICF estimated March 1 as a reasonable point where the data can be provided, analyzed by the PUC, reviewed with Parties', and implemented.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

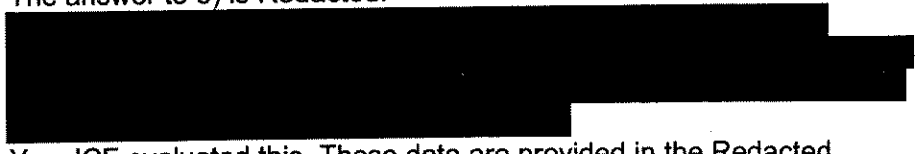
Docket #05-0002

HPMA-IR-27 Ref. ICF Recommendations at p. 60

a. Will the annual update of trucking costs also occur on March 1?
b. Was any analysis done on the Oahu trucking costs and other regions on the Mainland not used in recommending DTW margins and, if so, what did your analysis show (identify any assumptions made and the databases and the specific sources used)?
c. Please confirm that ICF did not use the PUC's approved Hawaii trucking tariffs in computing trucking costs.
d. Wouldn't using the PUC approved trucking tariffs as a specific component in the trucking zone adjustment better take into account the cost differentials inherent in delivering to locations at varying distances from the load rack?
e. Did ICF investigate the difference between the average trucking costs allowed in each Zone's and the actual costs provided by the market participants? If so, what was the largest difference identified between the average cost and the actual cost? How were these differences accounted for in the analysis?
f. What analysis, if any, did ICF make of the ability of the marketer to absorb the difference between the average trucking cost allowed in each zone and the actual trucking costs to the more remote or smaller customers?

Response:

a) Yes, the annual update of trucking costs would occur on March 1.
b) No analysis was done on Oahu trucking cost; Company provided data was used. No analysis was done on Mainland locations not used in DTW margin calculations.
c) ICF did not use the PUC's approved Hawaii trucking tariffs in computing trucking costs.
d) Only if these were defined zones, or if a recommendation were made to establish prices for every service station. There are also many deliveries made in Hawaii on company owned equipment, which is outside the PUC tariff.
e) The answer to e) is Redacted.



f) Yes, ICF evaluated this. These data are provided in the Redacted Spreadsheet "HPMA-D6.1 Company Response Data 04-07". ICF utilized the average costs.

g) ICF did not have the data to evaluate the ability of the marketer to absorb the difference between the average trucking cost allowed in each zone and the actual trucking costs to the more remote or smaller customers.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-28 Ref. ICF Recommendations at p. 61

a. Is it your recommendation that the 0.7cpg added to barging also be reviewed and updated annually and, if not, why not?

b. Please show your calculations of, and provide all of your work papers showing how this 0.7 cpg added for losses, inspections, and demurrage costs was derived; include the assumptions made, if any, and the databases and the specific sources used, if any.

c. Since Hawaii barge charters are not subject to the Gas Cap law, if local barge companies insist on charter rates higher than reflected in ICF's assumptions and adjustments, how would a marketer recover these costs?

Responses:

a) The factor should be updated each year, although it may not change significantly.
b) The calculations are based on redacted data submitted by the Parties. Basically, losses of 0.4 to 0.5% were reported, with inspections at abut 0.1 cpg and demurrage estimates a bit smaller. ICF rounded these impacts to 0.7 cpg. If wholesale prices continue to rise, the number should be increased slightly.
c) The marketer would negotiate the best rate possible, and then their new rate would ultimately (one year later) be picked up in the zone cost adjustments.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-29 Ref. ICF Recommendations Exhibit 6.1 at p. 62
"Costs are what was actually reported by companies."

a. Were each of the components making up costs in each zone the same and if not, then by Zone what were the differences?
b. In Zone 1, the reference to "Base" is 2.7 cpg with others being in excess of Base. Is it part of the methodology being recommended that this 2.7 cpg be adjusted and, if so, how and when?
c. Were the trucking tariffs approved by the PUC ever considered and/or compared to the trucking costs calculated by ICF and, if so, any analysis as to the explanation as to why there is, in some cases, such a drastic difference between the two, and if not, why not?

Response:

a) Yes, ICF believes that each of the components making up costs in each zone were the same.
b) The 2.7 "Base" is the calculated average of Oahu trucking cost responses. It would be updated annually.
c) ICF examined the PUC trucking tariffs and of course they are for specific point to point movements. They also do not apply to any company moving product on their own trucks. Hence the company reported numbers were used. ICF doesn't know why in some cases there are drastic differences.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-30 Ref. ICF Recommendations at p. 64
"As noted, ICF averaged these data to arrive at "typical" barge, terminaling and trucking costs for each zone (aggregated on Exhibit 6.1)."

a. Were these "data" points that were averaged the same for each zone or did they vary, and if so, explain each variance?
b. Were any data reported by the companies not used by ICF, and if so, why?
c. How did the data relate to the size or utilization of barges, terminal and trucks, and to capital costs?
d. "Typical" barges and average costs favor bigger companies with larger volumes. How does the ICF support this anti-competitive result of their assumptions?

Response:

a) Each company that marketed in a given zone provided their data. The data was different for each zone. ICF does not know the specifics of each companies' costs or contracts to be able to explain variances.
b) Yes, at least one data point was not used. In one case ICF asked for clarification of a cost that seemed extremely high in a follow up IR to the responses sent on March 24 by the Parties, The clarification was not addressed adequately.
c) The costs were provided on a cents per gallon basis, or as total costs with volume noted. The costs were full costs, or contract terms, and therefore were, in ICF's opinion, reflective of scale. Capital costs were included in the costs, although in many cases in terminal costs they were not detailed.
d) The data show some situations where smaller companies are disadvantaged versus larger companies. ICF can only support the calculation of the numbers, although ICF notes that the only area where there is specific evidence of an impact of this effect is in trucking, and not in all zones.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-31 Ref. Exhibit 6.3, page 64

a. Can ICF explain why the difference between the Gas Cap DTW prices and the Gas Cap Branded Rack costs in the table is exactly 8.3 cents for all zones?
b. Please provide all data and work papers used to arrive at this margin for all zones, the data and work papers used to determine that this is the appropriate number for all zones, and the supporting calculations showing that each jobber on each island can exist on this margin.
c. Is it ICF's expectation that if a jobber has a retail dealer account that the jobber cannot deliver to at an 8.3 cent margin (or any other margin determined by the proposed formula), that the jobber will deliver gasoline anyway because he will still average 8.3 cents with profitable deliveries?
d. If this margin calculation changes each year due to mainland data changes, why would ICF expect Hawaii jobber costs (and therefore, necessary margins) to be related?

Response:

a) The cost to move (barge) and store (terminalling) product in each zone is identical regardless of the ultimate transaction point. Since the DTW and Rack margin caps are based on the mainland margins, they are applied in each zone in the same manner. Please note that higher trucking costs are recognized in the zone adjustments on most neighbor islands, which, in effect, allows a higher DTW margin than 8.3 cpg.
b) The details of this calculation are located in spreadsheets "C3.15 DTW Margin Comparisons 3-22-05 v2" and "C3.9 Rack Margin Comparison 3-16-05". The margins are the same for all zones. There are no calculations done to show that any jobber can exist on these margins.
c) No, ICF does not believe that the jobber will deliver gasoline anyway because he will still average 8.3 cents with profitable deliveries
d) ICF does not believe that there is a relationship between Mainland margins and Hawaii jobber costs. ICF also does not believe that there is a relationship between Mainland margins and *Mainland* jobber costs.

Sponsor: Thomas W. O'Connor

ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-32 Ref. ICF Recommendations at p. 66

a. Was any consideration given to the typical volumes handled by a mainland wholesaler in any of the 5 markets chosen vs. ones in Hawaii and how that might affect the margin calculation?

b. If such a consideration was made, what were the results and why were they eliminated from the analysis?

c. Does ICF think volume differences between Hawaii marketers and mainland marketers play a role in determining margins?

Response:

a) No consideration was given to the typical volumes handled by a mainland wholesaler in any of the 5 markets chosen vs. ones in Hawaii

b) N/A

c) ICF believes volume differences may play a role in determining marketer profitability. To clarify, ICF believes it is possible that volume differences between Hawaii marketers and mainland marketers can play a role in determining *marketing costs,* not gross margin. As noted, ICF did not study these differences, but will comment that some of the mainland markets chosen are not significantly different than Oahu in terms of population and demand, and may have significantly more jobbers than Oahu or Hawaii in the same market.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-33 Ref. ICF Recommendations (7.3.1 Process) at p. 68:

a. Please confirm that the process to calculate the gas caps or subsequent adjustments does not take into account any attrition that may occur either at the refinery or the wholesale level.

b. Would it be appropriate to provide rules or have contingencies in place that can be implemented to avoid attrition before it happens, or, as stated, simply to "understand the causes"?

Response:

a) ICF confirms that the process to calculate the gas caps or subsequent adjustments does not take into account any attrition that may occur either at the refinery or the wholesale level.

b) ICF believes it is appropriate, due to the nature and scope of this change, to "examine the performance of the process, and impact on consumers and companies impacted by this legislation" after six months of experience (Page 5, Executive Summary).

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-34 Ref. ICF Recommendations at p. 73

a. Please confirm that without a thorough analysis of the market and the impact of the changes being implemented that there is no way you can confirm that the market can be sustained.

Response:

a) ICF believes a thorough market analysis is critical, and believes the ICF report and the IR process conducted by the PUC to solicit Industry and Citizen feedback are essential to addressing the sustainability issue. ICF does not believe that any analysis will truly "confirm" the sustainability of a market that is greatly influenced by global events.

As noted in Section 8 of the report, the gasoline market in Hawaii will change as a result of this legislation. Based on the Exhibits 3.19 and 3.20, over the past years Hawaii's wholesale prices, especially DTW, have been at or near the ICF cap level, and the market appears to have been sustained.

However, that analysis is not the same as actually marketing in a gas cap environment, and also it does not represent the potential issues that small marketers may have. ICF expects that in some cases attrition of marketers may occur, as well as possibly some service station closures in some areas due to supply cost issues (i.e. cost of supply can't be justified by the marketer).

There is also some exposure that refining assets will be closely examined.

The gas caps can control the price of gasoline, but not the behavior of market participants to respond to the limitations on their business.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-35 Ref. ICF Recommendations at p. 74
"It must be recognized that retail marketers are under no obligation to lower street prices if wholesale prices are reduced."

a. It has been recognized repeatedly by all parties that there is no mandate in the law that reductions in wholesale prices be passed to consumers by retail dealers. Dealers themselves have testified it is unlikely they will do so all the time, every time. Given the ultimate intent of the Law, shouldn't there be some adjustment mechanism of the gas cap be in place such that if the reductions are not passed on to consumers that the dealers are not unjustly enriched at the wholesalers' expense?

Response:

a) Regarding the concern that reductions in price may not be passed on to consumers, ICF would not know what to suggest without a Legislative change being required. It may be possible to incorporate Retail monitoring as part of an overall monitoring program, but this would be, at a minimum, a PUC decision.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-36 Ref. ICF Recommendations at p. 76 (486H Adjustments)
It was recommended that marketing margin factor (3) adjustment should NOT be based on PADD 5 DTW.

a. Are you recommending not using PADD 5 DTW Bulk price data because it would not be appropriate with your recommended methodology in computing price caps, or do you consider it inconsistent with the method and data points proposed by in the statute and why?
b. Why wouldn't your proposed methodology of averaging prices work here to address the variances that you note in the PADD 5 data base?

Response:

a) ICF does not know what the Commission may ultimately determine regarding baseline sources, location, margins, etc. However, in the reading of Section 486H-16, ICF was concerned. The ICF methodology represents an adjustment that should update the gas cap margins for US mainland marketing margins annually. Section 486H-16 appears to adjust margins, after Parties' request consideration, based on PADD 5 DTW to bulk spreads.

Using average PADD 5 prices can create significant data inconsistencies and errors. For example, spreadsheet "Total Gasoline Prices Volumes US 1_2_3_5" shows that volumes of Bulk sales in PADD 5 are about 14% of DTW sales volumes. Since the price data are averages, and since DTW sales are fairly ratable, the timing and location of the bulk sales can greatly affect the calculated average price of Bulk sales in PADD 5, and lead to very incorrect price spreads.

b) The ICF methodology would be much more reliable

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-37 Ref. ICF Recommendations at p. 76 (Supply Impacts)

a. Please confirm that ICF's recommended methodology did not take into account that a gas cap could cause a refiner to export product to capture the higher value rather than selling it into the Hawaii market.

b. Did ICF look at refiners' ability to produce CARB gasoline and the economics of exporting to California? If so, what were the results? If not, would this not be important information for the PUC to know?

c. Please confirm that your analysis did not take into account any change of crude run (type and throughput) that may affect the amount of gasoline available from the local refineries.

d. If the product (gasoline or components) were exported or not produced, could this lead to a shortage of product for use by the Hawaii consumer?

Response:

a) ICF's recommended methodology did not take into account that a gas cap could cause a refiner to export product to capture the higher value rather than selling it into the Hawaii market.

b) ICF did not look at the refiners' ability to make CARB gasoline or the economics of exporting. CARB gasoline would generally be more expensive to manufacture, and the refiners would have to weigh those costs, plus the shipping costs to the West Coast against the alternative of selling conventional gasoline locally in Hawaii.

c) ICF did not evaluate or estimate any change of crude type in Hawaii refineries. The amount of crude processed would be driven by overall refinery economics. Gasoline is about 20% of Hawaii refinery yield. The crude run and type decisions are based on overall economics based on crude cost and overall product yields and price. These economics could drive higher or lower gasoline yield for reasons having nothing to do with gasoline price caps.

d) Yes. If gasoline products or components are exported or not produced, it could lead to a shortage of product for use by Hawaii consumers.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-38 Ref. ICF Recommendations at p. 76 (Ethanol)
"The intent of this report was not to identify the issues or impacts of ethanol blending: however, it is clearly a factor which may need to be considered by the Commission in future Gas Cap management."

a. April 4, 2006, is the effective date for the mandate that ethanol be used in the State. If marketing margins and zone adjustments are only adjusted annually how can decisions be made as to what capital improvements should be made to ensure that this mandate is followed, with adequate assurances that such costs can be recaptured in the margins, and, if so, would not capital costs also properly be a part of ICF's other recommended adjustments?
b. What mechanism is currently being recommended that would take into account the implementation of the ethanol legislation and, if there is no mechanism currently in place, would the law have to be amended before these ethanol capital costs can be accounted for?
c. Given that the ethanol legislation is scheduled for implementation on April 4 and capital improvement costs incurred prior to that date, shouldn't the methodology proposed specifically take the State's ethanol mandate into account as a separate component in calculating either the rack or DTW marketing margin?

Response:

a) The capital improvements that need to be made to ensure that this mandate is followed will need to be made regardless of whether gas caps are in place or not. No marketer will have any assurance that the capital spent to meet the mandate will be recoverable in the Hawaii market, even without gas caps.
b) The operational and capital costs associated with barging, terminalling and trucking costs would be captured in the annual cost reporting process (although they would be averaged, and also would not be integrated until the 2007 year).
c) There are other issues than the cost assessment to consider, including the baseline source price and the acquisition of ethanol. It is not clear to ICF whether there will be sufficient production in Hawaii to be able to meet the mandate without importing cargoes of ethanol. This will be an operational and cost challenge, and may also be a transitional period until Hawaii ethanol production is streamed. It will be difficult for the gas cap legislation to be adjusted for ethanol blending if the ethanol blending process is not stable.

ICF has concerns that the marketers, refiners, and consumers in Hawaii may be approaching a confluence of regulatory actions involving both the gas caps and ethanol which will likely create high business and capital investment uncertainty, as well as possible supply concerns. Frankly, the uncertainty around the costs and ability to initially acquire and blend ethanol from outside Hawaii is a greater

challenge and issue than the gas caps. If local production was available to meet demand, the Industry investments and costs would be lower and the interaction less of a concern.

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ICF CONSULTING LLC RESPONSE TO HAWAII PETROLEUM MARKETERS ASSOCIATION'S INFORMATION REQUESTS

Docket #05-0002

HPMA-IR-39 Ref. ICF's proposal to the PUC

a. Is it ICF's position that gas cap laws, such as HRS Ch. 486H, as amended, are not a good idea? If this is not ICF's position, what did ICF state in its proposal to the PUC for this consulting engagement about the effectiveness of gas cap laws?

b. Based on your response to the foregoing question, is it ICF's position that the Hawaii gas cap law (HRS Ch. 486H, as amended) is a good idea or is otherwise an exception to the position ICF took in its proposal to the PUC? If not, why not?

Response:

The following paragraph is excerpted from ICF's proposal to the Commission:

ICF's view of the consultant's reports and recommendations is that in most situations price caps can and will be counterproductive to a competitive marketplace, whether imposed on a retail or wholesale basis. Given that, ICF believes that the Commission's desire to ensure that price caps reflect a true market basis at all product sources in Hawaii is the most effective approach to implementing price caps which could achieve the desired intent.

ICF does not believe gas caps are a "good" idea. ICF believes gas caps can be counterproductive to a competitive marketplace. ICF's review of Hawaii's market and history, compared with the mainland, indicated that the Hawaii marketplace may not necessarily be competitive in all aspects. As noted in Stillwater (page 98, the end of section 6.2.1), the Hawaii market may meet three of the 4 primary conditions under which government intervention could contribute: market behaves as an oligopoly, inelastic demand, inelastic supply.

ICF saw several areas where HRS Ch. 486H, as amended, should be modified to better meet the intent of the Legislation. ICF recommendations on baseline, location, zone adjustments and premium and midgrade margins are, ICF feels, necessary. ICF recommendations to reflect multiple classes of trade are necessary (although possibly not Bulk), and ICF believes that Marketing margins may merit review to determine if fundamental Hawaii differences from the mainland (primarily land/rent caps) should be reflected.

ICF believes that the publication of the gas caps and ongoing monitoring and publication of wholesale and retail prices can provide a significant share of the benefits of a rigorous compliance system, and may merit consideration by the Commission prior to a full gas cap implementation.

Sponsor: Thomas W. O'Connor

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Responses to Information Requests upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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